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November 2006

How Long Beach Weathered the Storm and Restored Its Fiscal Health

by Bonnie Lowenthal

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A perfect financial storm bore down on the City of Long Beach in the fall of 2002.

The city's tax base was shrinking, and voters had recently reduced by 50 percent a utility tax that was the general fund's largest single source of revenue. Homeland security costs were skyrocketing after 9/11, as were rising workers' compensation, employee healthcare and pension obligations.

The long-term practice of relying on one-time revenues and multimillion-dollar interfund transfers to pay for ongoing programs had helped the city in the revenue-abundant late 1990s. But in 2002, it became a major factor in the shocking announcement that the \$368 million general fund had a structural deficit of \$43 million, a figure that would exceed \$102 million in just three years if nothing were done.

Just as distressing, it was becoming increasingly clear that many residents were losing trust and confidence in their city government. Judging from the overwhelmingly negative media coverage (including scathing op-ed pieces and letters to the editor in local papers), there was an apparent lack of openness and transparency at Long Beach City Hall. A common misperception was that city officials were spending too much money on non-core services and employee health care and benefits at the expense of programs that residents valued, such as street and sidewalk repairs.

Flash forward to August 14, 2006. Newly elected Mayor Bob Foster and City Manager Gerald R. Miller presented to the city council the FY 2007 proposed budget that would eliminate the last vestiges of the structural deficit.

"The past several years have seen record deficits matched by unprecedented discipline with an eye toward this day: a structurally balanced budget buoyed by optimism about the economic health and future of Long Beach," Mayor Foster said in his formal budget recommendations.

Rebuilding Public Confidence Tops Priorities

Restoring levels of trust, making the budget more accessible, and implementing performance-based budgeting were key to eliminating the structural deficit, and

they remain priorities throughout all levels of the city today.

"We had no choice but to recognize and address the growing perception of community disenfranchisement and the lack of transparency throughout the city's decision-making process," City Manager Miller said. "We learned a very important lesson and seized the opportunity to improve overall community information, input and interaction."

The Community Speaks Up

Residents clearly had a say in their city's budget priorities. They provided more than 13,000 suggestions for service priorities and guidelines during the first year of this process through citywide surveys and public meetings, including the first annual Budget Summit, which several hundred people attended. Since then, more than 200 public meetings (70 in 2006 alone) have given residents the opportunity to tell city leaders which services they think are vital.

"It was a two-way educational process ? for the community and for us," said Deputy City Manager Suzanne Mason. "Many residents didn't have an understanding of what services the city provided. Public meetings allow us to hear the community's priorities, and the community learns what services the city can provide within budget constraints."

Making the Budget Easier To Understand

Making the budget readable and more user-friendly was an essential part of the city's outreach process. The FY 2006 budget was an innovative document, implemented as part of the city's "Focus on Results (FOR) Long Beach" budget process and its commitment to performance management. The budget was a radical departure from its predecessors because it presented financial and performance information at the program level instead of at the organizational level (department and bureau). This new budgeting method lists descriptions and key services for each program, provides performance measures and notes key accomplishments, when appropriate.

"In the past, the budget contained information down to the bureau level in each department, and most residents didn't have any idea how their tax dollars and fees were being spent on services they cared about, such as youth programs or street and sidewalk repairs," Deputy City Manager Mason said.

Incorporating Performance-Based Measures

"Because the budget is performance based and results oriented, with specific objectives based on both community and city council priorities, we can monitor performance toward meeting these objectives. More importantly this new budget method is a management tool that allows us to make the changes needed in order to provide the best service possible," City Manager Miller said. "And that, after all, is why we are in public service."

How the City Turned Things Around

In September 2002, the city council approved the FY 2003 budget with the following conditions: Form a Budget Advisory Committee to review the city's finances, and develop a financial strategic plan to address the city's growing structural deficit. Some of the most significant results of this process have been:

- The city council adopted financial policies to establish standards for guiding the city's budget and financial activities with the intention of preventing future budget imbalances.
- More than 400 positions were eliminated without layoffs.
- More than 250 vehicles were removed from the city's fleet, lowering fleet services costs and saving \$1.25 million.

- Materials, supplies and equipment were reduced citywide, saving more than \$6 million.
- Approximately \$1.8 million in cost savings and new revenue were generated through stepped up code enforcement.
- The city's optimized workers' compensation program has reduced direct costs by \$2 million annually citywide (\$1.3 million in the general fund) while improving services to injured workers.
- Approximately \$13.7 million in revenue was generated from increased cost recovery on fees for service, and \$12.2 million was generated through increased return on city assets.
- An operating reserve and infrastructure reserve were created to ease the impact of future economic fluctuations.
- The emergency reserve was maintained at 10 percent of the general fund budget, per city council policy.
- Hours at the city's 12 libraries, as well as the books and materials budget, were severely reduced.

The good news is that the \$374 million 2007 proposed general fund budget, if approved, eliminates the last \$10 million of the structural deficit, contains a small surplus for the first time in years, and earmarks money for restoring library hours and programs. Furthermore, on Dec. 20, 2005, Standard & Poor's Rating Services revised its outlook on Long Beach's rating from negative to stable and affirmed its "AA-" issuer credit rating on Long Beach. Standard & Poor's also affirmed its "A+" rating and underlying rating (SPUR) on the city's appropriations-backed debt.

"Long Beach has set a new financial course founded on solid fiscal principles and focused on bringing new clarity and transparency to our budgeting process," said Mayor Foster.

LESSONS LEARNED FROM THE BUDGET PROCESS

We live in a political world. Recognize the difficulty facing your council. Making incredibly hard decisions, including which city services to keep and which to reduce or eliminate, negotiating employees' salary and benefits, and changing the way the city does business from the inside out, is a difficult reality for most elected officials. It helps if management can provide a clear direction, a well thought-out, comprehensive plan, and strong leadership before the political urgency dissipates over time.

Does your city really want to hear from the community? Be prepared! Involve the community with every major decision. Make openness and transparency a city priority and policy. Residents are more likely to trust you when you are forthright early in the process about significant problems.

Also have a mechanism in place for analyzing large amounts of community feedback. Long Beach received more than 13,500 responses to its Voice Your Choice community survey and then created a database to accurately analyze all of them before communicating the results to decision-makers.

"We didn't have a mechanism in place to handle such a large amount of community feedback at the time. Cities need to have that, especially if they're inviting feedback, because it can be overwhelming," said David Wodynski, city budget management officer. The database is extremely useful for analyzing community feedback from annual budget summits and community meetings.

Prepare in advance. Results-oriented budgets provide easy-to-understand

financial information for the council and the community. Having a performance management framework in place at the beginning of the process is important. The city implemented its performance-based budget under the Focus On Results (FOR) Long Beach banner for FY 2006, two budget years after the start of significant cuts. "If we had the FOR Long Beach information at the beginning of the process, we would have been more efficient. It would have helped us fine-tune our strategies earlier by accurately identifying low- and high-performing programs, especially with the goal of aligning resources with core programs and services," said Stephen Scott, assistant to the city manager.

Show the results. Demonstrate early and often to council members, employees and the community the tangible steps the city is taking to put its own house in order. Long Beach benefited greatly from launching internal process reviews (optimization studies) and sharing the results with the public. For instance, one optimization study pointed out that several different departments, including city manager, planning and building, police, health and human services, city prosecutor and city attorney, were engaged in code enforcement activities. Several departments are still involved. As a result, the work is consolidated in the Community Development Department, which eliminated duplication of efforts and multiple contacts for the community. Now code enforcement workers are deployed on a geographical basis, which fosters a better relationship with neighborhoods. The cost savings over three years is estimated at \$1.8 million.

GETTING THE WORD OUT IN LONG BEACH

The City of Long Beach had no problem getting media coverage during its budget crisis in the fall of 2002. Screaming headlines were criticizing the city's opaque budget process that contributed to its multimillion-dollar structural deficit.

As city officials embarked on an intensive community outreach initiative to draw residents into the budget process and restore public trust, they worked closely with local media to publish one of the centerpiece efforts: the "Voice Your Choice: Community Survey on City Services," which asked the community to prioritize 51 general fund programs in nine service areas and solicited revenue-generating and other ideas "for fixing the city's budget problem."

The survey, published in English, Spanish and Khmer (the three primary languages in Long Beach) was also mailed with a monthly utility bill to each of the city's 170,000-plus households, posted online, and distributed to more than 80 boards, commissions, advisory committees, neighborhood associations, business organizations and even high school student councils during budget-related presentations.

The result: 13,500 responses for service priorities and guidelines, as well as a renewed sense of trust, confidence and understanding throughout the budget process.

The city also launched an ongoing series of community events and meetings, including annual budget summits. The city actively used media coverage, fliers, electronic messages and advertising to promote these events. It also distributed press releases about the information, suggestions and updates presented and received in these meetings.

These public meetings provided an opportunity for senior city management and city council members to review and discuss city services face-to-face with the community, as well as collect more comments, feedback and ideas to guide the city council's budget deliberations.

This major shift in attitude underscores an important point: It's not enough to hope that people understand what city hall is doing; that can easily lead to

misperceptions about the budget process, budget priorities and what residents can expect from city hall in general. City leaders must take the initiative to ensure that residents have ample opportunities to understand and comment on city goals and priorities. And the earlier in the process residents participate, the more likely they are to understand the process, appreciate the complications and contribute to the solutions, which results in increased levels of trust for city officials.

The City of Long Beach also publishes its budget on its website and publicizes budget information through:

- Press releases;
- An e-notify system and a weekly City Report reaching hundreds of subscribers;
- Public service announcements on the city's television station;
- Electronic signage visible from the heavily traveled I-405 freeway; and
- A monthly newsletter distributed with every utility bill.

Even people who call city hall learn about these budget events from on-hold messages.

In addition, the city solicited ideas from its employees through a Voluntary Idea Program (VIP), which offered a monetary incentive for innovative ideas if the city used them. A total of 361 VIP ideas to reduce spending or increase efficiency were submitted, and many of them were implemented.

The City of Long Beach was not alone in getting the word out. Here's how the Long Beach Business Journal, which had been a fierce critic of the city's policies, assessed the new mindset:

A sea change has occurred at Long Beach City Hall. ... Let's just say they woke up ? finally. Business as usual, hopefully, is out the window. No more blank checks. No more rubber stamping of budgets. Everything is under the microscope, from travel expenses to the use of city vehicles to salaries to the use of consultants. And that is precisely the way it should always be.

Given the deteriorating relationship between the city and the local media, this newfound mutual collaboration was acknowledged as a breakthrough toward restoring public trust and credibility.

About the Healthy & Safe Cities Series

The League's focus for 2006 is "To support policies that directly promote the development and redevelopment of healthy and safe cities." A healthy and safe city is one that can maintain its infrastructure, meet its growing housing needs and help its families thrive. Western City is featuring a series of articles that presents information of importance to healthy and safe cities. To read earlier installments, visit www.westerncity.com/articles.

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